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FISCAL IMPACT STATEMENT

LS 6208

BILL NUMBER: HB 1019

NOTE PREPARED: Nov 23, 2014

BILL AMENDED:

SUBJECT: Common Construction Wage.

FIRST AUTHOR: Rep. Torr

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill repeals the common construction wage statute. It also repeals related statutes superseded by the repeal of the common construction wage statute. The bill makes conforming amendments.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Public Works Projects:* Indiana's common construction wage is a wage determination system that is often more broadly referred to as a prevailing wage.

The preponderance of the literature on prevailing wage requirements suggests that they increase labor costs in state and local public works projects. Therefore, it is reasonable to state that the removal of the common construction wage may result in lower compensation plus fringe benefits for workers on public works projects. If the removal of the common construction wage results in lower wage and benefit costs as the literature suggests, it could have the following effects:

- Overall labor cost associated with public works projects greater than \$350,000 will be lower with the repeal of the common construction wage statute. The specific amount of cost savings is indeterminate at this time.
- Debt incurred to finance projects may decrease due to the lower project costs, thereby reducing bonding and/or property taxes.
- Additional funds may be available for other public works projects. Also, capital expenses may be reduced, making more funding available for noncapital expenses in project budgets.

Department of Labor: The removal of the Common Construction Wage would save the Department of Labor (DOL) resources currently used to provide administrative and technical support to local Common Construction Wage committees. Currently, DOL provides 1.5 FTEs towards these activities.

Additional Information: In Indiana, common construction wages are adopted in public hearings of Common Construction Wage committees. Each committee is charged with considering county-specific wage data from the AFL-CIO, Associated Builders and Contractors (ABC), and other interested parties to determine wage rates appropriate to the county where the project is located. The Indiana Department of Labor provides assistance to these committees.

A number of studies suggest that these kinds of prevailing wage provisions generally increase the labor cost (compensation plus fringe benefits) of public works projects, and exemption from these requirements may reduce expenditures. There is not agreement within the literature as to the level of increase in labor costs due to the prevailing wage. Unfortunately, data and methodological limitations have caused many studies on prevailing wage requirements to be inconclusive.

Conversely, some studies suggest that these types of prevailing wage systems lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force. If such benefits were not realized due to the repeal of prevailing wage requirements, public institutions may experience an increase in costs relating to these factors in the long run. Also, some studies suggest that prevailing wage systems, by increasing the wage to affected workers, increases the overall tax base due to higher incomes and consumption.

In Indiana, it is not mandatory to report local common construction wages adopted to the Department of Labor. Therefore, DOL does not have comprehensive information on all of the common construction wage scales adopted in Indiana.

The 2013-2015 biennial budget bill appropriated \$848 M in nontransportation construction projects for the state. Transportation capital projects are defined as those in the building of highways, roads, and bridges and are not subject to the Common Construction Wage. The biennial budget bill also authorized \$615 M in bonding for state educational institutions.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: DOL and state agencies constructing public works projects.

Local Agencies Affected: Local units constructing public works projects.

Information Sources: Indiana Department of Labor; *Understanding the Indiana Common Construction Wage Act*, http://www.in.gov/dol/files/CCW_Guide_2013_Complete.pdf; Jeanne Mejeur, National Conference of State Legislatures, jeanne.mejeur@ncsl.org; Kelsay, Michael P., James Sturgeon, and Kelly Pinkham. *The Adverse Economic Impact from Repeal of the Prevailing Wage Law in Missouri*. University of Missouri. 2011. <http://cas.umkc.edu/economics/resources/prevailingwagestudy.pdf>; Kentucky Legislative

Research Commission. *An Analysis of Kentucky's Prevailing Wage Laws and Procedures*. Kentucky Legislative Research Commission. 2001. <http://www.lrc.ky.gov/lrcpubs/RR304.pdf>; Fiscal Policy Institute. *The Economic Development Benefits of Prevailing Wage*. 2006. <http://www.fiscalpolicy.org/FPI%20Prevailing%20Wage%20Brief%20May%2006.pdf>; Mahalia, Noonshin. *Prevailing Wages and Government Contracting Costs - A Review of the Research*. Economic Policy Institute. 2008. <http://www.epi.org/publication/bp215/>; Belman, Dale and Paula Voos. *Prevailing Wage Laws in Construction: The Costs of Repeal to Wisconsin*. The Institute for Wisconsin's Future. 1995. http://www.faircontracting.org/PDFs/prevailing_wages/PrevailingWage%20Laws%20in%20Construction_%20Cost%20of%20Repeal%20to%20Wisconsin.pdf; Dean, Andrea M. *An Economic Examination of West Virginia's Prevailing Wage Law*. The Public Policy Foundation of West Virginia. 2009. http://heartland.org/sites/default/files/West%20Virginia%20Prevailing%20Wage%20Report_0.pdf.

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